

## Homewood Suites part of \$87M, four-property deal with REIT

BY BRAD BERTON

One of the nation's most acquisitive hotel traders has agreed to purchase San Jose's 140-unit Homewood Suites by Hilton, strategically located at North First Street and West Trimble Road a few blocks northeast of Mineta San Jose International Airport.

The sale expected to close about mid-year is part of a four-property, \$87.7 million deal between the hyper-active Apple REIT Eight Inc. of Richmond, Va., and the seller, which is affiliated with FTRC Hotel Partners in Natchitoches, La.

Amid ongoing solid revenue growth at Silicon Valley hotels, few owners appear enthused about parting with increasingly profitable properties. But in the Homewood's case the seller and affiliated entities (originally known as Horizon Hotels) have owned the property since acquiring the land from local developer Les Pelio back in 1990 and completing the "extended-stay" hotel the following year.

Apple REIT Eight is the latest of several so-called private REITs (real estate investment trusts) formed by veteran real estate and hospitality figure Glade M. Knight, chairman/CEO of Apple Real Estate Investment Trust Companies. Apple REIT Cos.' various investment vehicles have acquired 60-some hotels across the country within just the last two years or so.

The REITs are capitalized with investor equity at \$11 per share, underwritten through securities company David Lerner Associates in Syosset, NY. The companies' shares are not traded through securities exchanges. Apple REITs have focused exclusively on properties affiliated with the Marriott and Hilton brand groups.

Apple REIT management declined to discuss the Homewood acquisition, as REIT Eight is in a "quiet period" during which the Securities & Exchange Commission doesn't allow management to publicize its strategies and activities while raising capital. Its goal is to raise \$1 billion in gross investment proceeds, as was the case with Apple's REIT Six and REIT Seven.

The pending transaction with FTRC also includes a 154-room Hilton Garden Inn in Sacramento that Apple REIT Eight agreed to buy for \$24.5 million, and a 180-room Courtyard Inn in Cypress the REIT aims to purchase for \$29 million.

According to an SEC filing, the specific FTRC entity that owns the San Jose Homewood and a 106-unit Homewood Suites near Seattle-Tacoma International Airport has agreed to sell the pair for a total of \$34.2 million. Buyer and seller are still sorting out the specific values to be allocated to those individual properties.

Hotel investment specialist Don Wise at Johnson

Capital in Napa estimates REIT Eight management will ultimately allocate about \$150,000 per room to the San Jose property's valuation, equating to a property value in the \$21 million vicinity.

Hotel investors tend to be particularly attracted to so-called "high-barrier" marketplaces such as Silicon Valley (and pretty much all of coastal California) where prohibitive land costs and onerous approvals processes limit new competition, Wise adds.

"The savvy investor is looking for locations where they're not going to see a new 200-room Marriott built down the street," he elaborates. Hence the general sentiment that "Silicon Valley is a great place to own a hotel."

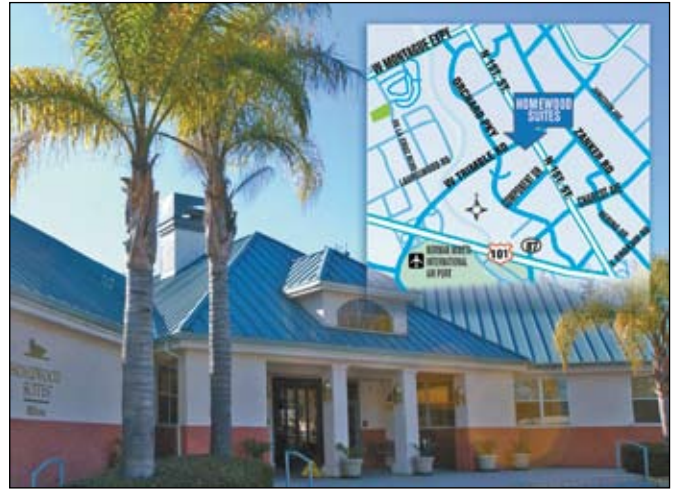
And it appears turmoil in the capital markets will make it that much tougher for developers to finance new hotels here and elsewhere in the months ahead, Wise adds. "It's reasonable to assume some portion of the new product in the pipeline — whether it's 10 or 20 or 30 percent — will get pushed back."

The closing of the Homewood sale has actually been pushed back a few months due to Apple's aversion to carrying corporate or mortgage debt. Santa Clara County real estate records provided by First American Title Co. indicate the current owner group refinanced the San Jose and Sea-Tac properties through a \$22.5 million mortgage in March of 2006.

According to an SEC filing, that mortgage can't be paid off until June 29. Hence REIT Eight doesn't plan to close escrow on the San Jose and Sea-Tac Homewood properties until after that date, when the securitized mortgage-holder group allows the borrower to "defease" the loan by substituting other assets (typically low-risk government bonds) for the real estate as collateral securing the loan.

Meanwhile local hoteliers are generally experiencing attractive income growth, according to data provided by Smith Travel Research. Through November the average hotel room occupancy rate in Santa Clara County in 2007 was 71.7 percent, up from 69.7 for the comparable period the previous year and 64.0 percent in 2005.

The average daily room rate (ADR) has jumped about \$10 each of the last couple years, from just under \$100 in 2005 to a bit over \$108 the following year and up to nearly \$119 last year. Revenue per



Dennis G. Hendricks

**SALE: An investment specialist says Homewood Suites by Hilton could reach a \$21 million valuation.**

available room (RevPAR) gains have been impressive as well, escalating from less than \$64 through November in 2005, to about \$75.50 for the same period in 2006 and on to beyond \$85 last year.

Airport-dependent hotels have seen similar gains, but tend to have somewhat lower occupancies, ADRs and RevPARs than the valley-wide averages. Through November the average rate for airport hotels last year was \$110, with RevPAR a bit over \$76.50.

Despite concerns about a potential national recession, Wise is still anticipating that hotels nationwide should see continued RevPAR growth at a respectable average in the vicinity of 4.7 percent this year. With inflation likely to remain in the 2-to-2.5 percent range, hotel owners and operators should generally look forward to "healthy, non-threatening positive arbitrage" between costs and revenues in 2008, Wise concludes.

Chances are the Homewood will trade hands again in the not-too-distant future. Knight's group sold the Apple Hospitality Two REIT to an affiliate of ING Clarion for \$890 million last May, followed by the sale of Apple Hospitality Five to Inland American Real Estate Trust for \$677 million just last October.

Knight and company appear to be pursuing a sound strategy assembling institutional-grade properties around the country that will retain value when it comes time to sell, Wise relates.

"The Apple group is putting together quite the institutional pedigree," he continues. "You can't get more institutional than Marriott and Hilton; those are fine companies that have always kept their eyes on the ball."